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Article — Digitized Version

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Intereconomics

Suggested Citation: Scharrer, Hans-Eckart (1976) : Rome, Jamaica, and what next?, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 11, Iss. 2, pp. 34-, https://doi.org/10.1007/BF02929356

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Rome, Jamaica, and What Next?

Two years ago, in Rome, the IMF's Committee of Twenty decided to forget all about their previous efforts for a comprehensive reform of the international monetary system and to turn to a piecemeal approach concentrating on a few "urgent" issues only. Now, at Kingston, Jamaica, the Interim Committee finished the work of their predecessors agreeing upon a package of measures relating to the exchange rate system, the future monetary rôle of gold and the Fund's financial capacity and policies.

Looking first at the provisions for the exchange rate system one is indeed inclined to ask why on earth it took the Finance Ministers so long to come to terms. After all, the new Article IV of the Fund's Articles of Agreement states little more than the obvious, namely that a member may maintain fixed exchange rates in terms of SDRs (or another denominator other than gold), enter into cooperative exchange arrangements with other members (e.g. the Euro-Snake) or adopt "other exchange arrangements" of its own choice. The term "floating" is never used – the only French victory – yet this is exactly the practice which now has finally been legalized. As to a possible return to a general system of stable but adjustable par values in the long run, the legal provisions are such as to render more difficult rather than facilitate such a step. The future rôle of the IMF in exchange relations is still open to question. Whereas according to Article IV "the Fund shall exercise firm surveillance over the exchange rate policies of members" it has neither sticks nor carrots at its disposal to get and keep governments on the right track. As in the past the Fund's actual influence will be heavily dependent upon the quality of its economic analysis and judgment and the diplomatic skill in presenting its – often unpopular – views to the governments concerned.

The gold issue had already been settled in principle at the Committee's last meeting in August 1975. What was left for Jamaica were only some matters of practice. According to repeated statements gold will be gradually phased out of the international monetary system. However, this is only part of the truth. On the one hand, the official price of gold will be abolished, the reverse side of the coin being that currencies will cease to be denominated in terms of gold. In transactions with the IMF gold will no longer be used. The Fund will reduce its gold holdings of 150 million ounces by one third, restituting 25 million ounces to its members and auctioning another 25 million ounces. On the other hand, following ratification of the Articles' amendments national monetary authorities will be free to buy and sell gold at market prices. Some of them stand even ready to do so at once via the Bank of International Settlements which is exempt from the temporary restraint. Thus, whereas gold will no longer serve as a "numéraire" it will continue to be used as a major reserve asset. The long-run implications of this practice are not yet foreseeable, yet they are certainly more complex than the gold agreement is suggesting.

The really significant decisions in Jamaica were in the fields of international liquidity and development finance. As a matter of fact, the IMF is right on the way to becoming a bank for developing countries. The Ministers endorsed an increase in quotas from SDR 29 to SDR 39 bn, i.e. by 32.5 p.c. In addition, until the ratification of the amendment of the Articles – and possibly even longer – the members' drawing rights under the credit tranches will be increased by 45 p.c. Also the trust fund which will provide balance of payments assistance on concessionary terms to the poorest members is now going to be established. IMF gold sales are expected to result in proceeds of $ 400–500 mn in 1976 and again in each of the following three years. Before the meeting the Fund's Executive Directors had already raised the drawing limits under the compensatory financing facility from 50 to 75 p.c. of a member's quota.

In the eyes of developing countries all this is still not enough. Faced with heavy balance of payments deficits and reduced access to the international financial markets they urgently demand more money at more liberal conditions. Resistance among industrial countries is small. After all, international money creation appears painless compared to opening the markets for imports from developing countries. You only have to forget that debts should ideally be paid back some time. But this is a subject for some of the future meetings.

Hans-Eckart Scharrer